



**MARKET CONDUCT EXAMINATION REPORT**  
**Dated February 6, 2012**

**COVERING THE TIME PERIOD OF JANUARY 1, 2010 THROUGH  
DECEMBER 31, 2010**

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**FIRE INSURANCE EXCHANGE**

**4680 Wilshire Boulevard  
Los Angeles, California 90010**

**NAIC Company Code 21660  
NAIC Group Code 0212**



**CONDUCTED BY:**

**COLORADO DIVISION OF INSURANCE**

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**FIRE INSURANCE EXCHANGE  
4680 Wilshire Boulevard  
Los Angeles, California 90010**

**MARKET CONDUCT  
EXAMINATION REPORT  
DATED FEBRUARY 6, 2012**

**Examination Performed by:**

**State Market Conduct Examiner**

**Jeffory A. Olson, CIE, FLMI, AIRC, ALHC  
Examiner-in-Charge**

**And**

**Independent Contract Examiner**

**Lucille E. Whittle, CIE, MCM**

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**COMPANY PROFILE**

**The following profile is based on information provided by Fire Insurance Exchange and has not been verified by the Colorado Division of Insurance:**

Fire Insurance Exchange was organized on November 20, 1942, under the Reciprocal or Inter-Insurance Act of California. Fire Insurance Exchange is currently licensed in 31 states including Colorado.

Fire Insurance Exchange was licensed in Colorado on April 1, 1943. Lines of business authorized are various life products, accident and health, other casualty products including personal lines automobile, homeowners and farm owners multiple peril and various fire products.

Fire Insurance Exchange, together with Farmers Insurance Exchange, Truck Insurance Exchange and their subsidiaries and affiliates, comprise the Farmers Insurance Group, which is based in Los Angeles, California. The reciprocal insurers are owned by their respective policyholders. The policyholders of each Exchange appoint an exclusive attorney-in-fact to provide management services to the Exchange.

Fire Underwriters Association is the attorney-in-fact for Fire Insurance Exchange.

In 2010, Fire Insurance Exchange reported \$115,409,564 in total written premiums for all lines of insurance in Colorado.

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**PURPOSE AND SCOPE**

A state market conduct examiner with the Colorado Division of Insurance (“Division”), and an independent contract examiner, reviewed certain business practices of Fire Insurance Exchange (“Fire” or “Company”). This market conduct examination (“MCE”) was conducted in accordance with Colorado insurance laws §§ 10-1-201, 10-1-203, 10-1-204, 10-1-205(8) and 10-4-414, C.R.S., which empower the Commissioner of Insurance (“Commissioner”) to examine any entity engaged in the business of insurance in the State of Colorado. All work product developed in producing this report is the sole property of the Division.

The purpose of this examination was to determine Fire’s compliance with Colorado insurance laws related to homeowners’ insurance written in Colorado. Examination information contained in this report will serve only this purpose, except as provided by law pursuant to §§ 10-1-204 and 10-1-205, C.R.S. The findings and conclusions, including the Final Agency Order, arising out of this examination shall be a public record.

The examiners conducted the examination in accordance with procedures developed by the Division which are based on model procedures developed by the National Association of Insurance Commissioners (“NAIC”). The examiners relied primarily on records and materials maintained and/or supplied by Fire. This market conduct examination covered the period from January 1, 2010 through December 31, 2010.

The examination included a review of the following:

- Company Operations and Management
- Complaints
- Policy Forms
- Rates
- Underwriting: New Business
- Cancellations/Nonrenewals
- Claims Handling

The examination report is a report by exception. References to additional practices, procedures, or files that did not exceed the error tolerance levels established by the NAIC were omitted. Based on the review of the above areas, comment forms were prepared for Fire identifying any concerns and/or discrepancies. The comment forms contained a section that permitted Fire to submit written responses to the examiner’s comments.

For the period under examination, the examiner included statutory citations and regulatory references related to homeowner insurance laws as they pertained to insurance companies. Examination findings may result in administrative action by the Division. The examiner may not have discovered all unacceptable or non-complying practices of Fire Insurance Exchange. Failure to identify specific Fire practices does not constitute acceptance of such practices. This report should not be construed to either endorse or discredit any insurance company or insurance company product.

## **METHODOLOGY**

The examiners reviewed Fire Insurance Exchange’s business practices to determine compliance with Colorado insurance laws. For this examination, special emphasis was given to the statutes and regulations as shown in Exhibit 1.

**Exhibit 1**

<b>Statute or Regulation</b>	<b>Subject</b>
Section 10-3-1103, C.R.S	Unfair methods of competition and unfair or deceptive acts or practices prohibited.
Section 10-3-1104, C.R.S	Unfair methods of competition and unfair or deceptive acts or practices.
Section 10-4-110.7, C.R.S.	Cancellation or nonrenewal of policies of homeowner’s insurance.
Section 10-4-110.8, C.R.S.	Homeowner’s insurance – prohibited practices – definitions.
Section 10-4-111, C.R.S.	Summary disclosure forms required.
Section 10-4-112, C.R.S.	Property damage - time of payment.
Section 10-4-116, C.R.S.	Use of credit information.
Section 10-4-117, C.R.S.	Loss history information report – notice to insured – definition.
Section 10-4-119, C.R.S.	Monthly and electronic payment of premiums.
Section 10-4-401, C.R.S	Purpose – applicability.
Section 10-4-403, C.R.S	Standards for rates – competition – procedure – requirement for independent actuarial opinions regarding 1991 legislation.
Section 10-4-404, C.R.S	Rate administration.
Section 10-4-404.5, C.R.S	Rating plans – property and casualty type II insurers – rules.
Section 10-4-413, C.R.S	Records required to be maintained.
Section 10-4-416, C.R.S	Prohibiting changes in rates or coverages.
Section 10-4-421, C.R.S	Notice of rate increases and decreases.
Insurance Regulation 1-1-7	MARKET CONDUCT RECORD RETENTION
Insurance Regulation 1-1-8	Penalties And Timelines Concerning Division Inquiries And Document Requests
Insurance Regulation 5-1-2	Application and Binder Forms
Insurance Regulation 5-1-10	RATE AND RULE FILING SUBMISSIONS PROPERTY AND CASUALTY INSURANCE
Insurance Regulation 5-1-14	Penalties For Failure To Promptly Address Property And Casualty First Party Claims
Insurance Regulation 6-1-1	LIMITING COVERAGE
Insurance Regulation 6-2-1	COMPLAINT RECORD MAINTENANCE

### **Sampling Methodology**

The examiner selected all files, where a sample of a larger population was taken, on a random sample basis in accordance with the sampling methodology and sample sizes set forth in the 2010 NAIC Market Regulation Handbook (“Handbook”).

Where the error rates of the samples indicated it would be appropriate to select an additional sample per the sampling instructions in the Handbook, but the initial results were conclusive, Fire was afforded the opportunity to agree that the initial sample was appropriate or request an additional sample be selected. In each case, Fire indicated that the initial sample was appropriate.

When sampling was involved, a minimum error tolerance level of seven percent (7%) for claims, and ten percent (10%) for other samples, was established per the Handbook to determine reportable exceptions.

An error tolerance level of plus or minus ten dollars (\$10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero dollar (\$0) tolerance level was applied in order to identify possible system errors. Additionally, a zero dollar (\$0) tolerance level was applied in instances where there appeared to be a consistent pattern of deviation from Fire's established policies, procedures, rules and/or guidelines.

### **Company Operations and Management**

The examiners reviewed Fire Insurance Exchange's management and administrative controls, the Certificate of Authority, record retention, underwriting guidelines, and timely cooperation with the examination process.

### **Complaints**

The examiners selected a random sample of seventy-nine (79) complaints from a total population of 109 complaints.

### **Policy Forms**

Fire provided specimen copies of forms used with the various homeowner policies written in Colorado. The examiners reviewed the forms listed below to determine that correct coverages were provided:

<b><u>FORM NAME</u></b>	<b><u>FORM NUMBER</u></b>
Payment Remittance	25-2870
Evidence Of Insurance For Mortgagee/Other Interest	25-2960
Evidence Of Insurance For Mortgagee/Other Interest	25-2960
Evidence Of Insurance For Mortgagee/Other Interest	25-2960
Visa Stuffer for Standard Bill Credit Card	25-4110
Fair Credit Reporting Act - Credit Adverse Action Notice	25-7835
Fair Credit Reporting Act - Credit Adverse Action Notice	25-7835
Notice Of Underwriting Decision	25-8416
Optional Payment Plan \$5.00	26-0465
Your Policy Is On A Farmers Billing Plan	26-5071
Landlord Protector Package	56-5019
Certificate As To Evidence Of Insurance	56-5076
Special Form Homeowner Package Policy	56-5270
Townhouse and Condominium Owner Package Policy	56-5272
Broad Form Rented Package Policy	56-5273
Protector Plus Homeowner Package Policy	56-5274
Declarations Page	C5279510
Declarations Page	C5279610
Declarations Page	C5479210
Declarations Page	C5479310
Certificate As To Evidence Of Insurance	E0158
Broad Form Lienholders Single Interest Endorsement	E1161
Endorsement Amending Section II - Exclusion	E4040
Endorsement Amending Section II - Exclusion	E4041
Endorsement Amending Section II - Exclusion	E4042

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<u>FORM NAME</u>	<u>FORM NUMBER</u>
Business Pursuits At Other Residence	E4109
Endorsement Adding Waterbed Liability	E4111
Extending Farm Land Leased To Others	E4132
Motorized Golf Cart Endorsement	E4138
Business Pursuit Endorsement - Insured As Employee	E4150
Loss Assessment Coverage	E4152
Certificate As To Evidence Of Insurance	E4158
Additional Premises Rented To Others	E4170
Additional Named Insured - Designated Premises Only	E4172
Watercraft Endorsement	E4176
Child Care Liability Coverage Endorsement	E4196
Named Insured And Relatives Residence Medical Payment	E4197
Child Molestation Exclusion Section Ii-Liability	E4207
Modified Loss Settlement End Amend Section 1 Condition 3	E6002
Amend Personal Injury Your Townhouse & Condo Owners	E6007
Amend Personal Injury Protector Plus	E6008
Amend Debris Removal Coverage And Pollution Exclusion	E6018
Amend Debris Removal Coverage & Pollution Exclusion	E6022
Contract Of Sale Clause	E6025
Condominiums Rented To Others Coverage	E6028
Endorsement Amending Landlord's Protector Package	E6029
Building Ordinance Or Law Coverage Endorsement	E6044
Extended Replacement Cost	E6046
Extended Replacement Cost	E6047
Modified Loss Settlement Provision For Roof Surfacing	E6048
Modified Loss Settlement Provision For Roof Surfacing	E6049
Amend Personal Injury Landlord Protector	E6074
Increased Limits On Personal Property Other Residence Cov C	E6108
Mortgage Guarantee Endorsement	E6110
Contents Replacement Cost Coverage	E6120
Optional Collision Coverage Endorsement	E6122
Separate Structures Rented To Others	E6129
Condominium Unit Owners Separate Structures	E6134
Earthquake Endorsement	E6138
Additional Insured Endorsement	E6141
Goods For Sale Endorsement	E6143
Animal Collision Coverage	E6144
Loss Payable Clause Endorsement	E6146
Residence Glass - Waiver Of Deductible	E6154
Mobile Homeowners Replacement Cost Endorsement	E6157
Business Pursuits On Residence Premises	E6158
Build Property Additions - Alter & Loss Assess Increased Limit	E6161
Increased Special Limit Jewelry; Watches; Furs; Firearms Etc.	E6164
Physicians; Surgeons; Dentists & Vets Away From Premises	E6170
Three Or Four Family Dwellings	E6174
Farm And Ranch Owners Coverage Endorsement	E6180
Endorsement Adding Personal Watercraft Coverage	E6187
Earthquake Townhouse - Condos	E6188
Windsurfing Equipment Increase Amount Coverage	E6190
Fire Department Service Charge Increased Limits	E6192

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<u>FORM NAME</u>	<u>FORM NUMBER</u>
Specific Limits On Separate Structures	E6199
Terrorist Risk Coverage	J6195a
Restrictive Endorsement	E6241
Special \$250 Theft Deductible	E6321
Sewer And Drain Water Damage Coverage Endorsement	E6401
\$250 Windstorm Or Hailstorm Deductible	E6403
Sewer And Drain Water Damage	E6415
Identity Fraud Expense Coverage	H4140
Endorsement Amending Losses Not Insured	H6104
Special Limits On Sports Cards	H6106
Increased Special Limits On Sports Cards - Coverage C	H6122
Home-Based Business Endorsement	H6133s
Endorsement Amending Losses Not Insured	H6205
Endorsement Amending Losses Not Insured	H6207
Endorsement Amending Losses Not Insured	H6209
Endorsement Amending Section Ii - Exclusions	H6221
Separate Structure Exclusionary Endorsement	H6224
End Amending Add. Coverages - Unit Owners Build Property	J6071
Personal Articles Floater	J6102
Course Of Construction Coverage	J6133
Increased Special Limits On Certain Personal Property	J6143
Sewer And Drain Water Damage	J6165
Amending The Loss Settlement Provision	J6180
Unscheduled Personal Articles	J6194
Terrorist Insurance Coverage	J6195
Business Pursuits At Other Residence	J6226
Business Pursuits Endorsement - Insured As Employee	J6229
Additional Insured Coverage A And B Coverage E And F	J6230
Watercraft Endorsement	J6231
Child Care Liability Coverage Endorsement	J6232
Modified Loss Settlement Endorsement	J6234
Modified Loss Settlement Provision For Roof Surfacing	J6235
Increased Limits On Personal Prop - Other Residence	J6237
Certificate As To Evidence Of Insurance	J6238
Business Pursuits On Residence Premises	J6243
Contract Of Sale Clause	J6244
Loss Payable Clause Endorsement	J6245
Farm And Ranch Owners Coverage Endorsement	J6246
Specific Limits On Separate Structures	J6248
Separate Structure Exclusionary Endorsement	J6250
Increased Special Limits On Sports Cards Coverage C	J6251
Personal Articles Floater	J6252
Course Of Construction Coverage Endorsement	J6253
Increased Special Limits On Certain Personal Property	J6254
Endorsement Excluding Bodily Injury Caused By Dogs	J6256
Additional Premises Rented To Others 1 Or 2 Family Residence Cov E & F	J6257
Endorsement Adding Personal Watercraft	J6259
Residence Glass - Waiver Of Deductible Endorsement	J6260
Separate Structures Rented To Others	J6262
Sewer And Drain Water Damage Coverage Endorsement	J6263

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<u>FORM NAME</u>	<u>FORM NUMBER</u>
Physicians, Surgeons, Dentists & Vets Away	J6264
Earthquake Endorsement	J6267
Homeowners Basic Package Endorsement	J6467
Identity Management Services Endorsement	J6501
ID Management Services And ID Fraud Expense Coverage Endorsement	J6502
Endorsement Regarding Reciprocal Provisions	J6800
Declaration Introduction Letter	L1009200
Special State Provisions Endorsement - Colorado	S0710
Colorado Endorsement Amending Cancellation Conditions	S0724
Subscription Agreement - Fire Insurance Exchange	251296
Evidence Of Insurance For Mortgagees Or Other Interests	252960
Important Notice For Fire Subscribers	253031
Important Notice For Fire Ins Exchange Subscribers	253096
Interior Sprinkler Discount Declaration	253247
Local Burglar Alarm Discount	253250
Interior Sprinkler Discount Declaration	253252
Marketing Auto Business Letter	253910
Subscription Agreement - Fire Insurance Exchange	254051
Proxy Fire Insurance Exchange	254096
Proxy Fire Insurance Exchange	254097
About Reconstruction Cost Estimates And Your Policy Limits	254250
About Reconstruction Cost Estimates And Your Policy Limits	254250
Extraordinary Event Qualification Notice	254294
Extraordinary Event Qualification Notice	254294
Fair Credit Reporting Act Notice	254297
Letter Of Experience	254304
Experience Rating Plan Disclosure Notice	254330
Homesafety Discount Declaration	254428
Residential Component Technology Letter	254690
Colorado Fire Conditional Policy Disclosure	255645
Colorado Loss History Notice	256258
Dwell Replacement Cost Estimate - Policyholder Explainer	257213
Property Experience Rating Plan	257523
Fair Credit Reporting Act Notification	257583
Fire Privacy Notice	257660
Gramm-Leach-Bliley Act Privacy Act Notification	257660
Fair Credit Reporting Act Notification	257705
Fair Credit Reporting Act Notice	257705
Fair Credit Reporting Act - Credit Adverse Action Notice	257835
Important Notice Increase In Wind Hail Deductible	257930
Important Notice Increase In Deductible	257932
Optional Pay Plan - \$5.00	260465
E0022 Message (Other Ea States)	265080
Homeowners Renters Condo Unit Owners & Landlord's Prot Program Summary	310618
Colorado Homeowners Disclosure Form	311618
Supplemental Heating Questionnaire	311715
Dwelling Under Construction	311717
Business Pursuits Questionnaire	311725
Memorandum Of Insurance With Subscription Agreement	316093
Memorandum Of Insurance With Subscription Agreement	316093

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**Rates**

Fire Insurance Exchange provided copies of its rate filings applicable to policies written during the period January 1, 2010 through December 31, 2010. The examiners reviewed these filings.

**Underwriting – New Business**

The examiners selected a random sample of 116 new business policies from a total population of 10,671 new business policies.

**Cancellations/Nonrenewals**

The examiners selected a random sample of 113 cancellations/nonrenewals from a total population of 1,128 cancellations/nonrenewals.

**Claims Handling**

The examiners selected a random sample of 108 paid claims from a total population of 9,054 paid claims and 108 denied claims from a total population of 5,414 claims closed without payment/denied.

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**EXAMINATION REPORT SUMMARY**

The examination did not result in any issues which met the threshold for being included in this report.

A copy of the Market Conduct Report if adopted pursuant to § 10-1-205(3)(a), C.R.S., and any subsequent response filed by Fire, if applicable, can be obtained upon request from the Division.

Results of previous market conduct examinations are available on the Division's website at [www.dora.state.co.us/insurance](http://www.dora.state.co.us/insurance) or by contacting the Division.

**Examination Report Submission**

**Division Market Conduct Examiner**

**Jeffory A. Olson, CIE, FLMI, AIRC, ALHC**

**And**

**Independent Contract Market Conduct Examiner**

**Lucille E. Whittle, CIE, MCM**

**Submit this Verified Report on this 6th day of February 2012 to:**

**The Colorado Division of Insurance  
1560 Broadway, Suite 850  
Denver, Colorado 80202**